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The Quarterly

INFORMATION & INSIGHT
INTO THE LEBANESE REAL ESTATE MARKET

Q2 . 2011



Despite the continued
regional uncertainties,
the future,
in our opinion,
holds the promise
of better market
conditions.

RAJA MAKAREM
Founder & Managing Director

Letter from the founder

Let us begin with an uncomfortable reality: the real estate market has just been through its worst quarter of the past five years. Very few apartments in the upper end of the residential market (those over USD 1 million, over USD 5,000 per sqm, or over 300 sqm) were sold and few land transactions have been concluded. Having said that, demand still exists and buyers are aware that time is on their side; they are often willing to wait for the right opportunity to come along. The political crisis over the government formation which lasted for about five months only made matters worse by pulling the market into deeper stagnation, as did the uncertainty created by the 'Arab Spring' and the International Tribunal.

All this is not to say, however, that the market is witnessing no activity. Two projects comprising nearly 10,000 sqm each were recently placed on the market and were almost entirely sold out in a very short time. Their secret: they offered the right typology (sizes) at the fair market price, meaning the market is not in as dire a state as some might believe. Smaller apartments between 100 and 250 sqm, within the budget of 500,000 to USD 800,000, are still selling well. Though limited, the sale of large and expensive high end apartments in prime addresses continues.

Land prices are slightly more worrying. Asking prices of land are caught in an upward cycle, although they are unreasonable compared to the achievable selling prices of finished units. Unfortunately, however, for some, it is enough to have one illogically priced land transaction, to consecrate the asking price.

Smaller apartments between 100 and 250 sqm, within the budget of 500,000 to USD 800,000, are still selling well.

Let us conclude with a comforting reality: despite the continued regional uncertainties, the future, in our opinion, holds the promise of better market conditions. The price of land cannot keep climbing incessantly as landowners who are genuine about selling will eventually re-align their expectations with market realities.



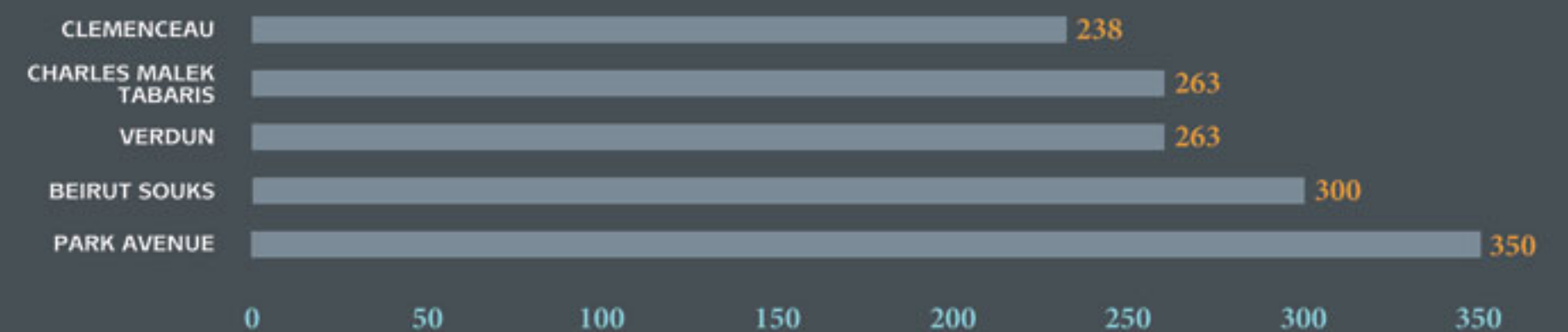
Top Five Office Destinations

WHERE DO BUSINESSES WANT TO BE LOCATED

The fact is that offices – particularly Grade A, purpose-built offices – are in very short supply on the Beirut market. The only truly purpose-built prime office spaces available are located in the Beirut Central District (BCD). That clear market leadership position is reflected in the area's Estimated Rental Values (ERV). BCD prices are indeed at the top of the capital's ERV chart. This is also the capital's most cosmopolitan and non-partisan destination, attracting the leading local and international companies. The second most coveted business address is Ashrafieh, where Charles Malek Avenue offers some high-end, beautifully designed office buildings. Two neighborhoods of western Beirut offer good quality office space: Verdun and Clemenceau. Locations outside BCD target a less diversified clientele.

ESTIMATED RENTAL VALUE (ERV) OF PRIME OFFICE DESTINATIONS (USD/sqm/year)

SOURCE: RAMCO - JUNE 2011



Top Five Office Destinations

WHERE DO BUSINESSES WANT TO BE LOCATED



ESTIMATED RENTAL VALUE (ERV)
OF PRIME OFFICE DESTINATIONS
(USD/sqm/year)

| | |
|-------------------------|-----------|
| Park Avenue.BCD | 325 – 375 |
| Around Beirut Souks.BCD | 275 – 325 |
| Charles Malek Tabaris | 250 – 275 |
| Verdun Street | 250 – 275 |
| Clemenceau | 225 – 250 |

SOURCE: RAMCO - JUNE 2011

PARK AVENUE (BCD)

Characterized by a stock of brand new buildings (2 Park Avenue, The Palladium, Berytus Parks) clustered around the purpose-built Starco Center, the area around Park Avenue is the prime destination for companies looking for Grade A office space. Modern designed buildings offer open spaces, state-of-the-art amenities, parking facilities, set in probably the most prestigious surroundings in Lebanon. Its central location, easy accessibility, and mixed usage – hotels, luxury boutiques, and some highly exclusive residential blocs – have attracted some of the leading local, regional, and international business names. Two more office projects are currently under construction in the area: Stratum and Mika 1.

ERV (USD/sqm/yr): 325 - 375

AROUND BEIRUT SOUKS (BCD)

The area around the Beirut Souks, which includes Weygand, Foch, and Allenby streets, is one of the most charming addresses of Beirut. It is one of the rare areas to have kept intact its traditional architecture dating back to the early twentieth century. The renovated buildings, carefully planned pedestrian areas and pleasant public spaces, create an elegant environment. The area's only two drawbacks are a lack of street parking and congestion, drawbacks shared by most popular office destinations.

ERV (USD/sqm/yr): 275 - 325

CHARLES MALEK / TABARIS

The stretch between Burj el Ghazal and Sofil has become a homogeneous continuity of up-market commercial addresses. The presence of Sofil's movie theatre and its handful of luxury boutiques has helped boost the entire area. Now, buildings such as Tabaris 812, l'Ellipse, or Quantum Tower are eagerly sought as elegant addresses, registering high occupancy levels.

ERV (USD/sqm/yr): 250 - 275

VERDUN STREET

In the pre-1975 war years, Verdun Street used to be an exclusive, upper-middle-class residential neighborhood of Beirut. Starting in the late 1980's and the 1990's, demand shifted toward commercial space, and office and retail projects proliferated: Verdun 730, Verdun 732, Verdun Twins, JM Plaza, Ibiza, etc. The current trend is a reversal toward up-market residential developments. A number of residential buildings are now being built along Verdun Street. Due to its high traffic and relatively easy accessibility, however, Verdun Street is still a favorite business address in Ras Beirut.

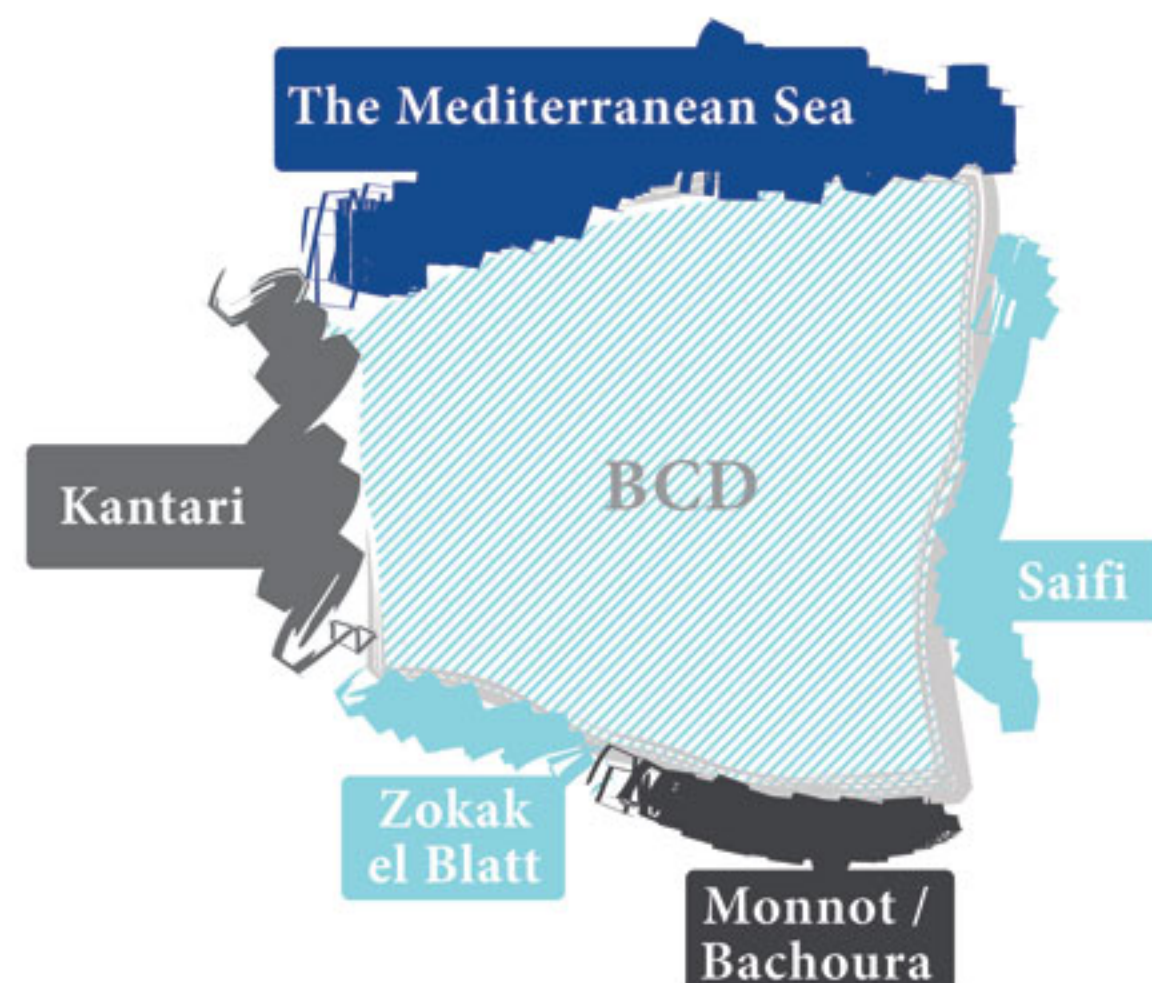
ERV (USD/sqm/yr): 250 - 275

CLEMENCEAU

With three dispersed landmark office buildings (Gefinor, Aresco Center, and Weavers Center), Clemenceau is the modern extension of Ras Beirut. Whereas the office stock in Hamra is old, badly maintained, and lacks modern facilities, Clemenceau's supply is the only modern office space in the area. Its proximity to Minet el Hosn is another advantage that plays in its favor. Being located at the entrance to Hamra, it also lacks the area's congestion. Clemenceau is a highly eclectic neighborhood, which, in addition to offices, is home to residential buildings, hospitals, schools and universities.

ERV (USD/sqm/yr): 225 - 250

Focus The Land Belt around BCD



From its inception, Solidere has been setting standards, norms and prices for the real estate market in Beirut. It has brought the prices of property along the belt immediately surrounding its borders close to the price of land asked inside its borders.

SAIFI

Running along the eastern border of BCD, Saifi is the most expensive façade bordering the BCD area. It offers a highly pleasant and attractive environment as some plots along the George Haddad Avenue fall under Solidere jurisdiction and must adhere to the company's building regulations. This has effectively increased the cost of construction, which has in turn increased selling prices. The area, however, does not warrant such high prices, as it lacks the quality of the urban infrastructure offered within BCD. Still, this thin strip along George Haddad Avenue does have the merit of providing a smoother visual transition between BCD and the more chaotic Saifi neighborhood.

ZOKAK EL BLAT

The area between Selim Salam and Murr Tower may not be very attractive, but it is mature – it is an inhabited residential neighborhood, easily accessible, relatively quiet, and only a stone's throw away from BCD. It also offers open views over the mountain and the city. Land owners, however, are overestimating the values of their property. Despite its proximity to Solidere, Zokak el Blat is bordered to the south by a very dense, unappealing neighborhood. Considering the general state of the infrastructure, narrow roads, lack of open green spaces, lack of pavements – asking prices are unjustifiably high.

MONNOT/BACHOURA

The stretch of road between Monnot and Bachoura is one of the noisiest strips surrounding BCD, as it lies along the Fouad Chehab ring road. As many of the plots bordering BCD also happen to fall below the level of the bridge, they are not attractive for residential development. The majority of existing commercial stock offered in BCD and already developing neighborhoods, such as Tabaris and Clemenceau needs to be absorbed before the Monnot/Bachoura stretch can start developing, and this may require quite some time. However, as the area represents one of the most important stocks of land in Beirut, it has become highly popular with speculative buyers betting on the future rise in the area's property value. The side effect is unjustifiably high prices for an area that offers none of Solidere's infrastructure.

KANTARI

The area is bordered by two well-organized neighborhoods offering a decent infrastructure and prestigious business and residential addresses – BCD and Clemenceau. Kantari has always been an institutional area, home to the first presidential palace, the Murr Tower, a number of banks, company headquarters, offices, and schools. The area is a fitting continuation of BCD. Asking prices are therefore reasonable and at par with our estimate of current fair market value.

| AREA | FAIR MARKET VALUE (USD/BUA) | CHARACTERISTICS |
|-------------------|-----------------------------|--|
| Saifi | 2,000 - 2,500 | Some plots are under Solidere regulations, hiking construction costs without necessarily offering to end users a similar high level of urban planning. |
| Kantari | 1,500 - 2,000 | Traditional institutional area (home to the former presidential palace, banks, schools, office buildings), bordered by two well-organized areas, BCD and Clemenceau, the area is a natural extension of BCD. |
| Zokak el Blatt | 1,000 - 1,500 | Relatively quiet, easily accessible, and offering unobstructed views, the area has strong potential for future residential development. |
| Monnot / Bachoura | 1,000 - 1,500 | Less attractive than its neighbors, the area is currently overpriced and on hold. It has been rife with speculative investors. |

SOURCE: RAMCO - JUNE 2011

Snapshot

HAMRA



Bliss & Makhoul

The neighborhood is the immediate extension of the campus of the American University of Beirut (AUB). Bliss Street offers particularly beautiful views over the campus – with its green areas and red roofs – and the sea beyond. This explains the slightly higher asking prices in Bliss than Makhoul.

Asking prices for new residential units start between USD 4,500 and USD 6,000, depending on the building's location and specifications.

Souraty, Makdessi & Jeanne d'Arc

The heart of Hamra revolves around the American University of Beirut Medical Center (AUBMC) and caters mostly to the professionals of the area (mainly doctors and university professors). This neighborhood is among the most mixed-use areas of Beirut, with a varied mix of residential buildings, office buildings, hospitals, hotels, schools, and a wide array of retail units.

Asking prices for new apartments, averaging 200-250 sqm, start at USD 3,750 per sqm.



South of Hamra

A purely residential area, the southern side of Hamra lying between Commodore Hotel and Emile Edde Street caters mostly to the middle market. A large project, Sadat 955, will start construction soon, placing dozens of new apartments on the market, which might boost the area's image. Several plots currently being used as parking lots have the potential to be developed.

Asking prices for new apartments, also between 200-250 sqm, start at USD 3,500-3,750 per sqm.

Zoom Ashrafieh Retail

SHOPS
GALLERIES
AND A MALL

The retail geography of Ashrafieh is a diversified mosaic of high-traffic thoroughfares and shopping, entertainment, or dining and clubbing destinations. Each attraction pole has different characteristics that cater to a different profile of clientele. All these principal attraction hubs, however, have one point in common: their popularity is boosting retail in adjoining areas.



Zoom Ashrafieh Retail

AREAS OF SPECIALIZATION

| LOCATION | ERV (USD/sqm/yr) | PRICE TRENDS |
|-----------------------|---------------------|-----------------|
| ABC MALL | 1,500 - 2,000 | ↗ |
| CHARLES MALEK / SOFIL | 700 - 800 | ↗ |
| SASSINE | 500-600 | ↗ |
| GEMMAYZEH | 400-500 | ↗ |
| FURN EL HAYEK | 300-500 | ↗ |
| MONNOT / SODECO | 200-500 | ↗ |

SOURCE: RAMCO JUNE 2011

ACHIEVABLE PRICES

Estimated Rental Values (ERVs) in Ashrafieh range between a low of USD 300 and a high of USD 2,000 per sqm per year. ABC Mall is at the high end of the spectrum and it has helped boost ERVs of nearby streets, such as Sassine Square and the top end of Elias Sarkis Avenue. Along Charles Malek Avenue, ERVs range between USD 600 and USD 800 per sqm per year. Less visible inner roads have much lower ERVs, at around USD 300-500 per sqm per year. Prices have stabilized in most areas. The notable exceptions are ABC Mall, where prices are on a steady rise. ERVs are stagnant in Gemmayzeh, which has reached maturity, and in Monnot, which has lost its attraction and obvious usage.

STEADY DEMAND

Typically, demand for Ashrafieh retail comes from F&B outlets, as this business, if well run, achieves very quick returns on investment. With more than a million visitors per year, ABC Mall is the most sought after destination by retailers. Demand for Charles Malek comes mostly from banks and restaurants, in search of large spaces and high visibility. Restaurants are also always on the lookout for traditional houses in Furn el Hayek, but these are becoming rare. The area also attracts established high-end boutiques – antique shops, art galleries, etc. Fast food outlets and coffee shops are mostly attracted to Sassine and ABC Mall. Gemmayzeh, which is still as popular as ever with pubs and restaurants, has very few available units left. Newcomers are slowly winding their way towards Mar Mikhael. Monnot is the only area in Ashrafieh that has lost momentum: the area is slowly shifting from being a prime location for pubs and clubs into a destination for boutiques and restaurants, although it is not yet clear what retail profile the area will become known for.



DIVERSIFIED SUPPLY

Since its inauguration, ABC Mall has become the uncontested leading shopping and entertainment destination of Lebanon. Home to nearly 200 brands and the most visited cinema complex in the country, it has played a major role in revitalizing retail in Ashrafieh. So far, the much anticipated opening of Beirut Souks has not tarnished its leadership position. Sassine Square has particularly benefited from its proximity to ABC Mall. It has seen the number of its restaurants and coffee shops noticeably grow since the mall was inaugurated at the end of 2003. The most popular high street destination in Ashrafieh is Charles Malek Avenue, which stretches from Tabaris Square to Sagesse School and offers a few high-end boutiques, mostly specialized in jewelry, carpets, a few good quality restaurants, and banks. The charming side streets of Furn el Hayek have also gained in popularity since the area's revived construction boom, offering small design boutiques, exclusive clothing and antique stores and restaurants. Gemmayzeh and Monnot-Sodeco are still sought after as the entertainment and Food and Beverage (F&B) destinations of Ashrafieh, and post very few availabilities.

OCCUPANCY LEVELS

There are still a few available units in the prime addresses of Ashrafieh, usually, either due to being over-priced or to the impossibility of turning them into restaurants. ABC Mall operates at full occupancy, and lines up potential tenants in a long waiting list. Popular destinations are almost all fully saturated, forcing newcomers to locate further away from the main retail hubs. This explains Mar Mikhael's growing success in the wake of Gemmayzeh's saturation as well as the revival of the side streets located at walking distance from ABC Mall.

BCD special



Lying near the Grand Serail, Wadi Abou Jmil has been destined (according to Solidere's Master Plan) as an almost exclusively residential neighborhood.

THE PRIVATE NEIGHBORHOODS OF WADI ABOU JMIL

Lying near the Grand Serail, Wadi Abou Jmil has been destined (according to Solidere's Master Plan) as an almost exclusively residential neighborhood. The area is also projected to be highly exclusive and private. With three projects currently under construction and a couple of others in the pipeline, the area is one of the most active construction sites in BCD.

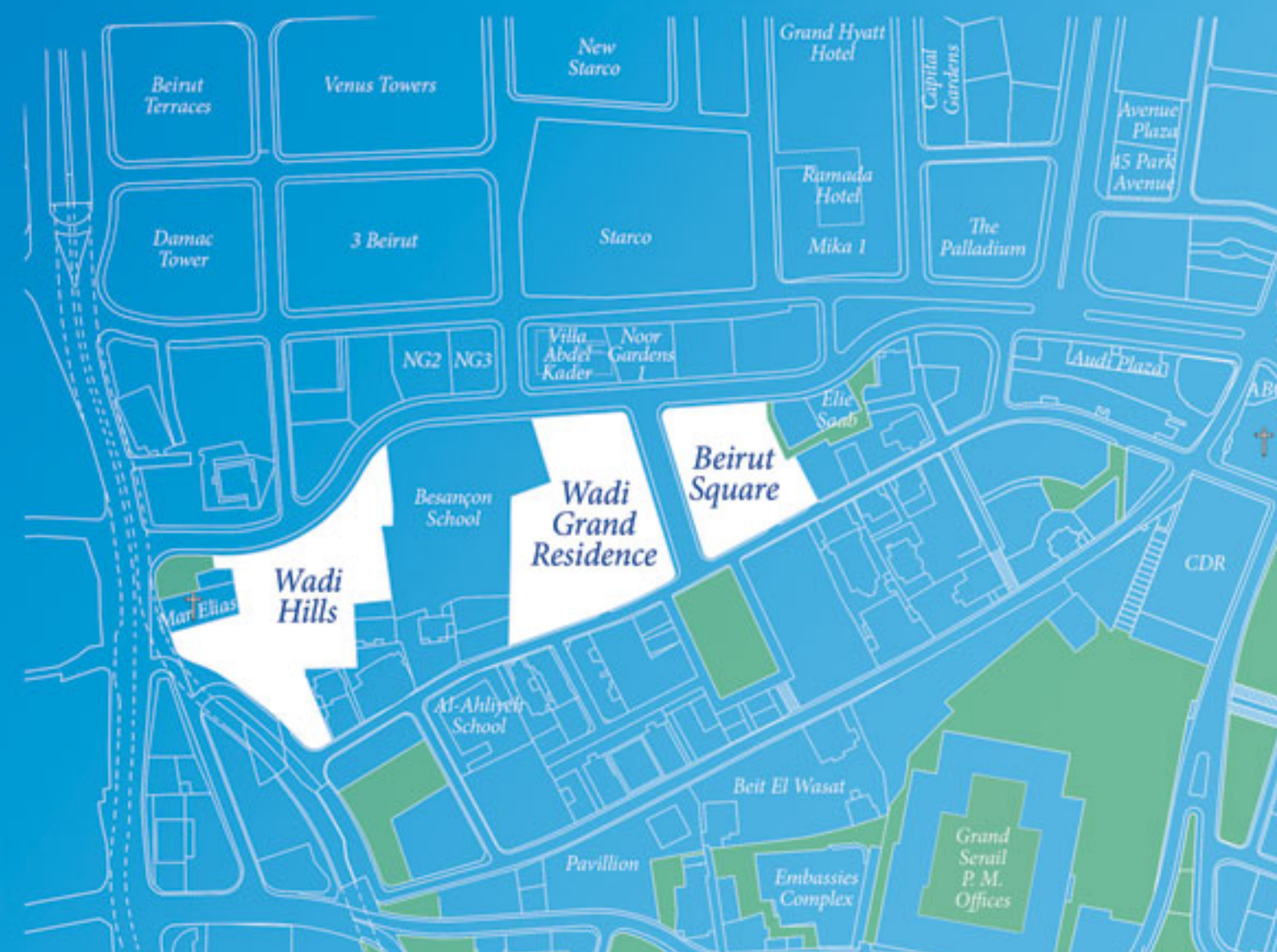
GATED COMMUNITIES

The three developments taking place in Wadi Abou Jmil are ultra-exclusive gated communities, offering a number of buildings clustered around a central private garden. Compounds can only be accessed by the development's residents. The area's main advantage is the calm it offers as compared to some other neighborhoods of BCD. To take advantage of the commercial potential generated by the traffic along the stretch of road in front of the Besançon School, retail units have been included at street level.

GATED COMMUNITIES UNDER CONSTRUCTION IN WADI ABOU JMIL

| PROJECT | BUA (sqm) | NUMBER OF APARTMENTS |
|----------------------|--------------|-------------------------|
| BEIRUT SQUARE | 15,260 | 49 |
| WADI HILLS | 22,000 | 68 |
| WADI GRAND RESIDENCE | 25,769 | 68 |

SOURCE: SOLIDERE YEARLY REPORT 2008 & 2009



MIRROR IMAGE OF SAIFI VILLAGE

Contrasting sharply with the taller buildings around it (up-coming developments, Starco and Burj el Murr), Wadi Abou Jmil, made up of buildings no higher than eight floors, slightly resembles Saifi Village. Wadi Abou Jmil contributes to the varied urban landscape that characterizes BCD. Like Saifi Village, the neighborhood is dense, with small buildings grouped very close together, around a central landscaped area. The very exclusive character of Wadi Abou Jmil, however, contrasts sharply with Saifi Village's open layout, with its inner streets that are open to the general public, though this may change with time.

MOST AFFORDABLE IN BCD

The low-rise projects in Wadi Abou Jmil result in the most affordable average prices in BCD, starting at around USD 6,000 per sqm. On average, prices are about ten percent lower than in other neighborhoods of the BCD, which also translates into slightly higher take-up rates in the majority of developments currently under construction in the area. Occupancy levels vary, however, as some projects have had more commercial success than others due to various considerations such as design, layout starting prices and marketing abilities.



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WHAT WE WROTE

The political and security situations in Lebanon and the region and a long drawn out governmental vacuum have put a dampener on the real estate market (30 April, 27 May & 9 June 2011). The upper tier of the residential market has suffered the most, but smaller, fairly priced apartments continue to sell. Developers are offering 10-15% discounts to serious home buyers; because of this cap on residential sale values, the price of land is expected to stabilize and landowners will have to come to terms with the reality of a stagnant residential market (30 April 2011). Several market niches continue to thrive: Verdun is reviving its image as a luxurious upper-market residential destination and continues to attract retail outlets, particularly restaurants and fashion stores (14 May 2011); Makdessi and Mar Mikhael are booming entertainment destinations, where pubs, cafés, restaurants, artistic boutiques abound (2 April 2011). The Pierre Gemmayel Avenue (Corniche du Fleuve) is just beginning to see its huge development potential exploited with a number of atypical, design projects (15 April 2011). Finally, the rental market, catering primarily to a foreign clientele interested mostly in Hamra, Saifi, and Gemmayzeh, is very lucrative, provided the right size apartments are presented at their fair market values (9 June 2011).

WHAT WE SAID

"Whilst the rate of growth in property prices has slowed over the past year, to about 10 per cent, prices are still rising."
Beirut's Real Estate Market Continues to Grow – Al Bawaba, 6 April 2011

"The stability on the security level of Lebanon as compared to the crises taking place in the majority of Arab countries offers Lebanon the opportunity to attract the funds that the revolts against the governments and its rich elite have pushed outside their countries."

AnNahar Newspaper – 7 April 2011

"Lebanese expatriates represent a large proportion of remittances and they are the ones who usually buy expensive apartments, but the regional turmoil is encouraging them to adopt a wait and see approach."

Foreign Investments in Lebanon See Decline – The Daily Star, 9 April 2011

"It is the first time that the real estate sector is negatively affected by the political and security situations in the past five years."

Lebanon without a Government Has Placed the Real Estate Sector on Hold – Elnashra, 12 April 2011

"The real estate market in Lebanon has entered a phase of stabilization, due to the lack of a political solution to the ongoing governmental crisis, which increases investors' fears and hence places demand on hold."

The Real Estate Market Stabilizes due to Governmental Void – Future Newspaper, 16 April 2011

"[...] Demand has dropped lately, but this concerns mostly high-end apartments and expensive realty products and has not yet reached small apartments."

Al Akhbar – Real Estate Prices Drop for the Rich, 24 May 2011

"Everybody expects to obtain a good deal, which puts pressure on developers."

L'Hebdo Magazine – A Sector at Two Speeds, 27 May 2011

WHERE WE APPEARED

RAMCO wrote the opening expert piece on the real estate section of the new magazine B'Here Lebanon, published in May 2011, in which it presented an overview of the performance of the real estate market in Lebanon during 2010.